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Issue Offer

Fresh Issue of 4,192,872 equity shares upto INR 400Cr and OFS of 8,525,472 shares by Promoters group taking the total issue size at INR 1,213.33cr

Issue Summary

Price Band (INR)	933-954
Face Value (INR)	5
Implied Market Cap (INR Cr)	2,994
Market Lot	15
Issue Opens on	Aug,04, 2021
Issue Close on	Aug,06, 2021
No. of share pre-issue	27,191,528
No. of share post issue	31,384,400
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	75
NIB Portion	15
Retail Portion	10

Book Running Lead Managers

JM Financial
DAM Capital, Equirus Capital
IIFI Securities

Registrar

KFin Technologies Pvt Ltd

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	31.6%	27.38%
Public & Others	68.4%	72.62%

Objects of the issue

- To finance the cost of establishing diagnostics centres at Punjab, Karnataka, Himachal Pradesh, and Maharashtra.
- Repayment/pre-payment of firm's borrowings fully or partially.
- General corporate purposes.

Krsnaa Diagnostics Limited (“Krsnaa”) was incorporated on 22nd December, 2010 at Pune. Krsnaa is a large and differentiated diagnostic service provider. They provide a range of technology-enabled diagnostic services such as imaging (including radiology), pathology/clinical laboratory and tele-radiology services to public and private hospitals, medical colleges and community health centres pan-India. Krsnaa offers a range of diagnostics imaging services and clinical laboratory tests that include both routine and specialized tests / studies and profiles, which are used for prediction, early detection, diagnostic screening, confirmation and/or monitoring of diseases

Key Highlights

- They operates one of India’s largest tele-radiology reporting hubs in Pune that is able to process large volumes of X-rays, CT scans and MRI scans round the clock and 365 days a year. Krsnaa provides quality and inclusive diagnostic services at affordable rates. Since inception, they have served more than 23 million patients.
- As of June 30, 2021, they had a team of 190 radiologists, 30 pathologists, 8 microbiologists and more than 2,800 qualified professionals including clinicians, technicians and operators.
- Krsnaa focuses on the public private partnership (“PPP”) diagnostics segment and have the largest presence in the diagnostic PPP segment. Their PPP agreements are typically long-term in nature and ensure predictability of their revenues from operations.
- Their continued focus on this segment has led them to become a preferred partner for public health agencies, resulting in, since commencement of operations, 77.59% of all tenders (by number) they have bid for being granted to them. As of June 30, 2021, they have deployed 1,797 diagnostic centres pursuant to PPP agreements.

Outlook & Valuation: At the upper band of INR 954, the issue is valued at P/E 78.1(x) its FY21 diluted EPS of INR 12.3. We like the company backed by its unique and scaled diagnostics business. Since inception and as of June 30, 2021, they have been awarded 38 contracts on a PPP basis, of which 32 projects have been executed while in the private healthcare segment, they have 26 active collaborations. Company also has scalable business model operating across 13 states allowing them to deploy new locations faster and effectively . Company has business model with good revenue visibility as company’s operation across radiology and pathology provides them with diversified source of revenue. However we believe with the reduction in covid cases company’s growth and margins are expected to taper down from H2FY22 respectively. Based on the above factors we recommend **SUBSCRIBE FOR LISTING GAINS** to the issue.

Business Overview

Krsnaa Diagnostics Limited (“Krsnaa”) is a large and differentiated diagnostic service provider. They provide a range of technology-enabled diagnostic services such as imaging (including radiology), pathology/clinical laboratory and tele-radiology services to public and private hospitals, medical colleges and community health centres pan-India. They are the fastest growing diagnostic chain in India on multiple parameters including operating income, operating profit before depreciation, interest and tax (“OPBDIT”) and profit after tax between Fiscal 2017 and Fiscal 2020 and volume of tests conducted between Fiscal 2018 and Fiscal 2021 (amongst players with revenues exceeding INR150 crore). They also operates one of India’s largest tele-radiology reporting hubs in Pune that is able to process large volumes of X-rays, CT scans and MRI scans round the clock and 365 days a year, and allows them to serve patients in remote locations where diagnostic facilities are limited. Krsnaa provides quality and inclusive diagnostic services at affordable rates across various segments. Since inception, they have served more than 23 million patients.

Krsnaa focuses on the public private partnership (“PPP”) diagnostics segment and have the largest presence in the diagnostic PPP segment. Their PPP agreements are typically long-term in nature and ensure predictability of their revenues from operations. Their continued focus on this segment has led them to become a preferred partner for public health agencies, resulting in, since commencement of operations, 77.59% of all tenders (by number) they have bid for being granted to them. As of June 30, 2021, they have deployed 1,797 diagnostic centres pursuant to PPP agreements with public health agencies. In addition to the PPP segment, they have been growing their collaboration with private healthcare providers to operate diagnostic centres within their facilities, and have expanded from operating 14 diagnostic centres, as of March 31, 2019 to 17 diagnostic centres, as of March 31, 2020 while they operated 26 such diagnostic centres as of June 30, 2021.

Krsnaa has an extensive network of integrated diagnostic centres across India primarily in non-metro and lower tier cities and towns. As of June 30, 2021, they operated 1,823 diagnostic centres offering radiology and pathology services in 13 states across India. Their operating model involves diagnostic centres operated under a hospital partnership model. These diagnostic centres are located within existing facilities of public and private hospitals or community health centres, and operated pursuant to arrangements with public health agencies and private healthcare providers. In Fiscal 2021 and in the 3 months ended June 30, 2020, they served 5.18 million patients and 1.88 million patients, respectively..

In line with their focus of providing inclusive and affordable services, Krsnaa offers their diagnostic services at competitive rates and at significantly lower rates than players with revenues exceeding ₹150 crore. For example, their radiology tests are priced 45% – 60% lower than market rates while pathology tests are 40% – 80% lower than market rates. Their brand is associated with quality diagnostic and healthcare services at affordable rates.

Krsnaa offers a range of diagnostics imaging services and clinical laboratory tests that include both routine and specialized tests / studies and profiles, which are used for prediction, early detection, diagnostic screening, confirmation and/or monitoring of diseases. Their diagnostic imaging/radiology services include conducting X-rays, computed tomography (“CT”) scans, magnetic resonance imaging (“MRI”) scans, ultrasounds, bone mineral densitometry and mammography. In the pathology segment, their primary focus includes biochemistry, haematology, clinical pathology, histopathology and cytopathology, microbiology, serology and immunology. A suite of diagnostic equipment is located at their tele-radiology hub along with a team of radiologists which provide them significant operating efficiencies and scalability

Company Business operation

Services

Krsnaa provide specialized diagnostic imaging (including radiology), pathology/clinical laboratory and tele-radiology services. Through their network of diagnostic centres, they offer a range of test that includes 1,394 radiology tests and 2,544 pathological tests, as of June 30, 2021 that covers a range of specialties and disciplines.

Radiology	Pathology	Tele-radiology
MRI CT X-ray Mammography Ultrasound and Colour Doppler Bone Densitometry	Routine Testing Specialized Testing	This comprising the sections for 80 CT/MRI/XRay technologist teams, a 100-member conference room and radiologists reporting area. The hub is operated by a panel of expert and qualified radiologists and as of June 30, 2021, it had a team of 190 in-house and tele-reporting radiologists reporting on CT/ MRI / X-ray studies from India and various countries of the world.

Home Collection Services: This is a key part of company’s customer-centric approach, as they strive to provide convenient, quality services to their patients. This helps to alleviate potential “high traffic” periods in their diagnostic centres.

Type of Diagnostic Centre	As of June 30, 2021	As of March 31,		
		2021	2020	2019
Radiology	1,370	1,365	897	833
Pathology	487	465	455	440
Collection Centres	443	425	422	409
Processing Centres	44	40	33	31

Public Private Partnership Projects :Krsnaa enters into agreements with public health agencies to establish and operate onsite diagnostic centres at existing healthcare facilities. Under these arrangements, they establish and manage “in-hospital” diagnostic centres to conduct onsite testing. Pursuant to the terms of their contractual agreements, the medical facility typically provides rent-free space and access to its utilities and other infrastructure, and Krsnaa provides the diagnostic equipment and are responsible for all costs relating to personnel, transportation of samples and maintenance of the laboratory. As of March 31, 2019, 2020 and 2021 and as of June 30, 2021, they operated 1,222, 1,311, 1,783 and 1,797 diagnostic centres pursuant to their PPP contracts, respectively.

Key Strengths

Unique and scaled diagnostics company: In the PPP segment, Krsnaa collaborate with central, state and municipal government operated health and medical facilities for the deployment and operation of their diagnostic centres. They partner with several private sector hospitals and health centres to establish diagnostic centres within their premises. Since inception and as of June 30, 2021, they have been awarded 38 contracts on a PPP basis, of which 32 projects have been executed while in the private healthcare segment, they have 26 active collaborations. They operate a hospital partnership model where diagnostic centres they operate are located within existing premises of hospitals and health centres and support them with onsite testing. They are offering imaging (including radiology), pathology/clinical laboratory and tele-radiology services across India

Segment	FY19	FY20	FY21
Radiology	19,50,356	34,76,253	30,54,032
– CT Scans	2,97,264	4,34,042	4,79,233
– MRIs	1,18,861	1,92,977	1,45,116
– X-rays	15,34,231	28,49,234	24,29,683
Pathology	54,41,779	71,76,459	63,19,285
Total	73,92,135	106,52,712	93,73,317

Company's business is focused on providing diagnostic services to the mass segment, particularly in tier II and tier III cities and towns in India in addition to metros and tier I cities. Their patient base includes large segments of government employees and their families, including public administrative officials, defence personnel, members of the judiciary and patients covered under the National Health Scheme. In Fiscal 2019, 2020 and 2021 and in the 3 months ended June 30, 2021, they served 3.25 million, 5.27 million, 5.18 million and 1.88 million patients, respectively

Tele reporting :

It is a critical and unique aspect of their business and they operate a large tele-radiology reporting hub in Pune which is among the largest in India and equipped with sophisticated equipment and operated by a panel of experts and qualified radiologists that enable them to serve patients in remote locations where diagnostic facilities are limited. The tele-radiology hub is capable of processing large volumes of X-rays, CT scans and MRI scans round the clock over 365 days a year, including over 126,000 CT scans, over 31,500 MRIs and over 1,500,000 X-rays per month. In Fiscal 2021, their tele-reporting network covered over 479,233 CT scans for 468,753 patients, 145,116 MRIs for 134,645 patients and 2,429,683 X-rays for 2,405,077 patients, respectively, while in the 3 months ended June 30, 2021, it covered over 215,609 CT scans for 218,661 patients, 36,454 MRIs for 32,474 patients and 535,083 X-rays for and 529,535 patients, respectively

Scalable and agile business model with efficient cost structure :

Company's operations across 13 states allow them to deploy new locations faster and efficiently. Their tele-reporting operations allow them to centralize resources and ready-to-build locations make their operations scalable. They have deployed 1,797 diagnostic centres on a PPP basis, as of June 30, 2021. Their existing large-scale operations have enabled them to address diagnostic requirements on account of the COVID-19 pandemic and as part of their response to the COVID-19 pandemic; their diagnostic centres have performed over 900,000 COVID-19 PCR tests in Fiscal 2021. They also established India's first Indian Council of Medical Research ("ICMR") accredited COVID-19 testing facility under the PPP model in Pune and is accredited by the ICMR and developed a mobile testing facility within an air-conditioned bus jointly with IIT Alumni Council's COVID-19 task force and the Brihanmumbai Municipal Corporation.

Key Strengths

Business model with robust revenue visibility: Company's operations across radiology and pathology provide them with diversified sources of revenue. Their PPP agreements, to deploy diagnostic centres for their radiology and pathology services are typically long-term contracts that ensure visibility of revenues for their operations. A diagnostic centre within an existing facility has significant advantages that include lower marketing spend and a captive customer base. They do not spend on doctor referral fees and commissions. The hospital partnership model of operations ensures captive customer, synergies in various costs as well as significant volumes that ensures that their cost structure is efficient.

Consistent track record of financial performance: Krsnaa is the fastest growing diagnostic chain in India in terms of operating income (amongst players with revenues exceeding ₹150 crore), OPBDIT and profit after tax between Fiscal 2017 and Fiscal 2021 and volume of tests conducted and patients between Fiscal 2018 and Fiscal 2021. They have demonstrated consistent growth in terms of their revenues and Adjusted EBITDA over the years. Their net revenue from operations increased at a CAGR of 37.65% from INR209.24 crore in Fiscal 2019 to INR396.46 crore in Fiscal 2021. In the last 3 Fiscals they have not incurred any write-offs and have not had any bad debts and they have witnessed consistent improvement in their balance sheet position

Ability to maintain cost competitiveness through operating leverage Under the hospital partnership model, Krsnaa benefits from the captive patient base of such facilities and the large volume of diagnostics tests undertaken for these patients. Larger volumes help diagnostic chains achieve economies of scale, as equipment are optimally utilized and operating costs are spread over a larger number of centres. Their high diagnostics volumes in-turn helps them enjoy economies of scale and thereby optimize their operational costs, resulting in price competitiveness. Their ability to competitively price their diagnostic services has enabled them to convert bids into actual contracts and is evident from their bid-win rate of 77.59% for tenders (by number) that they bid for since commencement of operations.

Experienced promoters and management team supported by strong employee base :Krsnaa attributes their growth to the experience of their Promoter and senior management team. The Promoter and Chairman, Rajendra Mutha, is a first generation entrepreneur and has over 10 years of experience in the field of pharmacy and diagnostics. He has been instrumental in the company's growth since its inception in 2010. They have also benefited from investments by Kitara and Somerset in Fiscal 2016 and from Phi Capital in Fiscal 2019 and the support of Phi Capital's nominee director on their board. The senior management team has significant experience and have been with the company collectively for over 30 years. Their operations are led by Shivananda Rao, Chief Operating Officer, who has over 22 years of extensive experience in the healthcare and hospitality sector and Dr. Kiran Bhise, Medical Director, is a practising laparoscopy surgeon, endoscopist and surgical gastroenterologist with over 21 years of medical experience and is a member of the Association of Minimal Access Surgeons of India and Association of Surgeons of India.

Key Strategies

Continue to expand presence across India: The company intends to grow their network across all states in India by leveraging their experience of deploying and operating diagnostic centres. The scale of their operations, presence in tier II and tier III locations, ability to offer competitive pricing to customers, accuracy of diagnostic test results and service delivery including through tele-reporting coupled with brand-building activities will allow them to grow their customer base.

They also intend to grow their focus on the private sector across both business-to-business and business-to-consumer segment by partnering with more private sector healthcare providers, establishing standalone diagnostic centres, integrated brand building campaigns, raising awareness among doctors on the quality and comprehensive nature of their service offerings and focusing on customer experience and improvement

Expand their offering of diagnostic services with a focus on specialized diagnostics :The company intends to enhance their capabilities in specialized diagnostic services such as molecular diagnostics and genomics. Further, at their diagnostic centres where they offer radiology services, they intend to create additional infrastructure to offer pathology services as well. They also intend to expand capabilities at their existing diagnostic centres to provide a wide range of services including healthcare screening and chronic and lifestyle disease management services.

Grow the digital footprint :Krsnaa intends to increase their touch points and engagement with customers through various digital and technology initiatives. Certain of these measures include developing online initiatives such as bookings, receiving reports and availability of patient and family history as part of their mobile application and tele-consultation. They also intend to leverage their data analytics capabilities by creating an intelligent dashboard that will be able to analyse historical trends and provide more value-added services. The granularity of data available with them, both geographically and across various segments will enable them to develop and support artificial intelligence based solutions in radiology and pathology. They are working towards procuring a centralized processing unit for their operations and equipment that will centrally monitor and implement quality checks for their pathology and radiology equipment

Continue to improve profitability and efficiency :In order to maintain profitability and owing to the highly competitive nature of the industry in which they operate, it is critical for Krsnaa to rationalize their costs to improve their margins. They propose to explore vendor financing, to reduce financing costs of equipment. They will also look to explore sources other than traditional banks and lenders. They will also explore off-balance sheet funding arrangements in the form of letters of credit. To increase efficiency of their operations, they intend to continue to upgrade their diagnostic equipment and technology.

Expand the business and geographical footprint through opportunistic acquisitions :The company intends to augment their growth by pursuing selective acquisitions and strategic alliances that provide them access to technology expertise, specialised services, market share and geographical reach and allow them to expand their offerings and grow their customer base. They have historically expanded their business through organic growth only and intend to evaluate inorganic growth opportunities going forward.

Key Strategies

Maintain high social impact : Krsnaa intends to increase their branding and marketing initiatives to promote the Krsnaa brand further. As part of their efforts to promote compliance with the United Nation’s Sustainable Development Goals (SDGs) and in particular to ‘ensure healthy lives and promote well-being for all at all ages’, they are working with state governments in Karnataka and Odisha to establish diagnostic centres that will provide diagnostic services at no charge or at subsidized rates to patients from lower income group through various government schemes and initiatives such as the ‘Free Diagnostics Scheme’. This will ensure a revenue stream for them while helping them achieve the social objectives.

Key Risks

- A substantial portion of Krsnaa Diagnostics’ revenue from operations depend on payments under contracts with public health agencies. If the company is unable to negotiate and retain similar fee arrangements, if the contracts are cancelled, or if they are unable to realize payments due to them, their business may be materially and adversely affected.
- Most of the company’s diagnostic centres have been established and are operated under PPP contracts awarded by government agencies through a competitive bidding process. There can be no assurance that they will qualify for, or that they will successfully compete and win such tenders
- Business interruption at the company’s diagnostic centres and tele-radiology reporting hub could result in significant losses and reputational damage to their business.
- The prices that the company can charge for diagnostic services are dependent on recommended or mandatory fees fixed under the terms of the agreements entered into with public and private healthcare providers.
- The company’s business is capital intensive. If they experience insufficient cash flows from their operations or are unable to borrow to meet capital requirements, it may materially and adversely affect their business and results of operations

Peer Comparison

Company (in Cr.)	CMP	Revenue	EBITDA	EBITDA M (%)	PAT	D/E	EPS	RoE (%)	P/E
Krsnaa Diagnostics Ltd [^]	954	396	106	27%	185	1.19	12.3	80%	78.1
Metropolis Healthcare Ltd	2,950	998	288	28.9%	183	0.00	36.0	26.2%	81.9
Dr. Lab Pathlabs Ltd	3,911	1,581	436	27.6%	292	0.00	35.0	23.4%	111.8

Financials are as on FY21; [^] at upper price band

For Krsnaa EPS is diluted EPS calculated post conversion of Series A CCPS and series C CCPS

CMP as on 03 Aug 2021

Management

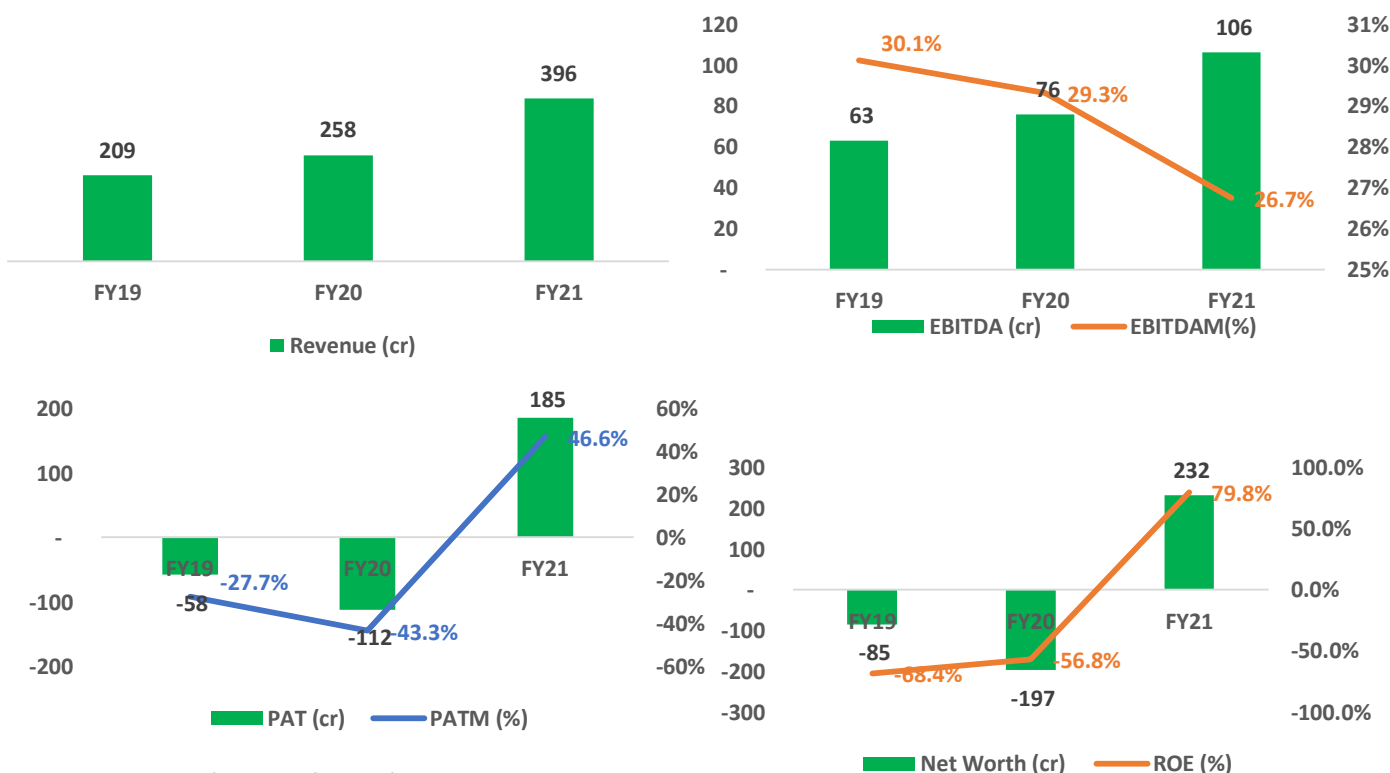
Key Person	Description
Rajendra Mutha	Rajendra Mutha is the Promoter, Executive Chairman and Whole-time Director of the company. He has over 10 years of experience in the field of pharmacy and diagnostics. He is currently responsible for the overall management of the Company.
Pallavi Bhatevara	Pallavi Bhatevara is the Managing Director of the company. She has 8 years of experience in the field of diagnostic services. She is currently responsible for expansion and growth of the company and is involved in the tendering process and implementation and execution of projects.
Yash Mutha	Yash Mutha is the Whole-time Director of the company. He has been associated with the company since October 17, 2018. He has over 12 years of experience in the field of audit and risk management. He is currently responsible for internal audit, risk review and development of business processes.
Pawan Daga	Pawan Daga is the Chief Financial Officer of the company. He has been associated with the company since November 20, 2020 and is currently responsible for financial control and accounts of the Company. He has over 8 years of experience in the field of finance and accounts.

Financial Performance

Particulars (in cr.)	FY19	FY20	FY21
Revenue	209	258	396
EBITDA	63	76	106
EBITDAM(%)	30.1%	29.3%	26.7%
PAT	-58	-112	185
PATM (%)	-27.7%	-43.3%	46.6%
Basic EPS	-24.1	-43.5	71.9
Diluted EPS	-24.1	-43.5	12.3
Net Worth	-85	-197	232
Total Debt	246	286	276
Total Assets	529	630	605
ROE (%)	-68.4%	-56.8%	79.8%

Source: BHP, Aриhant Capital Research

Charts



Source: RHP, Aриhant Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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